

**TOWN OF FOUNTAIN HILLS
MINUTES OF THE TOWN COUNCIL/STAFF RETREAT
FEBRUARY 11, 2016**

Mayor Kavanagh convened the meeting at 9:04 a.m., which was held in the Fountain Hills Town Council Chambers.

Members Present: Mayor Linda M. Kavanagh, Vice Mayor Henry Leger, Councilmember Nick DePorter, Councilmember Dennis Brown, Councilmember Alan Magazine and Councilmember Cecil A. Yates. Councilmember Cassie Hansen arrived at 9:10 a.m.

Staff Present: Town Manager Grady E. Miller, Town Attorney Andrew McGuire, Town Clerk Bevelyn Bender, Finance Director Craig Rudolph, Development Services Director Paul Mood, Presiding Judge Robert Melton, Economic Development Specialist Scott Cooper, Assistant Fire Chief/Marshal Dave Ott, Facilities/Environmental Supervisor Raymond Rees, Supervisor of Parks Don Clark, Kevin Snipes, Recreation Supervisor Rachael Goodwin, Senior Services Supervisor Kelley Fonville, Accountant Beata Bogdan.

Town Manager Grady Miller addressed the Council and reviewed the information contained in the PowerPoint (Copy available on line and in the office of the Town Clerk) beginning with a brief overview of the items that would be discussed during the retreat:

- Financial Policies/Fund Balances/Debt Service/FY 2015/16 Budget/5 year forecast
- Capital Reserve Study
- Possible measures to address financial challenges
- Core Services
- Operational Priorities
- Strategic Plan Update
- Capital Projects
- Transportation Report
- Economic Development Plan
- Public Safety

Town Manager's Overview of FY 2015/16:

Capital Projects

- Fire Station #2 - \$3.6M project under way
- Fountain Lake Water Quality – \$2.5M improvement project
- Fountain Hills Boulevard Shoulder Paving - \$500,000 project to repair erosion outer portion
- Alley Paving, Phase IV - \$25,000 project commitment to MAG
- Ashbrook Wash – major project this year
- Bus Barn Removal - \$75,000 project
- Fountain Park Improvement Access - \$375,000 project proposed for the end of the Avenue in front of the park

Environmental Fee

- Addressed Environmental Fee during budget process

Fire Services Contract Negotiations

- Negotiations with current contractor with possible consider of a future Town Fire Department

MCSO Contract

- Focus on negotiations – contract extension to June 2017

Solid Waste Contract (Republic Services)

- Recently renewed contract
- Adding household hazard waste collection (billing nominal fee to customer) and electronic recycling mailing service

Core Services:

- Fire and Emergency Medical Services
- Law Enforcement and Court Services
- Community Services
- Senior Services
- Development Services
- Administration

Town Manager Miller outlined departments/services that fall under each of the above-listed Core Services.

Mr. Miller stated he wanted to plan for the future and identify and prioritize the needs of the community with the Town Council. He stated the purpose of the retreat as requesting that the Council provide consensus regarding the strategies on projects since it appeared we would have a funding shortage next fiscal year. He expressed that hopefully funding could be found to cover core services. He also requested that Council set priorities for capital improvement programs and operations.

Mr. Miller turned the meeting over to Finance Director Craig Rudolph at this time.

Mr. Rudolph discussed the information provided in the PowerPoint (available on-line and in the office of the Town Clerk) regarding the Town's financial current policies, capital assets, grants, procurement, investment and the issuance and post-issuance compliance. He remarked that the cash handling, capital assets, grants and procurement policies were implemented or revised. He added that issuance and post issuance compliance was the result of the Town's three bonds issued last year for the 2014 GO bonds funding Saguaro Boulevard reconstruction and the refunded and refinanced Eagle Mountain CFT and MTC bonds in June.

Mr. Rudolph noted that the travel policy was in draft form and would be presented in the near future. He added policies to be revised included amending use and designation of General Fund Reserves, including the Rainy Day Fund and when to move surplus operating fund monies along with changing the allocation of construction sales tax. The investment policy was developed in March 2004 and needed to be reviewed to consider current investment vehicles and market conditions. He added the Grant Policy needed to be revised to conform to the new Federal Government's Uniform Guidance document that controls all the Federal Funds. He noted that currently he knows of no Federal Funds received by the Town, but the policy needed to be updated.

Fund Balances

Mr. Rudolph stated Council was interested in the Town's Fund Balances (refer to the PowerPoint Operating Fund Balances) consisting of the Rainy Day Fund, General Fund, Public Art Fund, Internal Service Fund, and Vehicle Replacement Fund that Council placed very strict rules and the only way we could use the Rainey Day Funds would be if we would lose 50% of our Town State Revenues. The General Fund regulations currently stated any excess in revenues each year would be transferred to the Capital Improvement Fund. Mr. Rudolph stated that the Town had accumulated a surplus and staff wanted the Council to review the policy and agree on what funds had been allocated for what purposes.

Mr. Rudolph noted that the last three funds were grouped together and called part of the Operating Fund. The Vehicle Replacement Fund was created to replace Town vehicles and in the late 2000's was never completely funded. He maintained that replacement of all Town vehicles would take approximately \$2,500,000 to replace all current vehicles.

Vice Mayor Leger asked about flexibility to move funds out of the Operating Funds. Mr. Rudolph answered that

in the Rainey Day Fund it was 20% of the prior five years operating expenses and the General Fund should contain a 10% surplus at 1.3M. He believed approximately 4.3M was available per current policy could be allocated elsewhere for a one time usage. Mr. Miller added this would be for a one-time purpose.

Mr. Rudolphy continued that the Highway User Revenue Fund was exclusively for streets and roads. Special Revenue Funds were restricted to environmental funding and Cottonwoods Funds were restricted to the maintenance and repair of the Cottonwoods. He explained that the Tax Excise Fund (Sales Tax) was designed by Council to be directed by them for payment on outstanding bonds, declaring funds would have to be replaced by June and December to receive principal payments. He continued to list Capital Projects which the Council was familiar with funding. He stated that debt service could be used but that it would require replacement to make payments to the CIP fund. The Reserve Fund was created to cover unknown facilities expenditures larger than expected and the Operating Budget could not absorb, but less than a qualifying Capital Improvement Project such as replacement of an air conditioning unit. The funds allocated were between \$10,000 and \$50,000 and listed under a line item in the General Fund.

Mr. Rudolphy explained that the Development Fees are currently collected for Fire and Emergency Services and Parks and Recreation. Of those fees a portion collected, prior to the new Development Fees dated August 1, 2014, were used as prescribed in a prior study and spent only on those named projects. He continued that Open Space was dedicated to Adero Canyon, Law Enforcement and allocated to Fire Station #2 to provide office space for MCSO.

Debit Services

Mr. Rudolphy pointed out there were two types of bonds: General Obligation (GO) Bonds and Municipal Property Corporation (MC) Bonds along with the Community Facility District to facilitate the repayment of the Eagle Mountain Bond that would sunset in 2021. He continued that the GO Bonds issued in December for the Saguaro Boulevard as a secondary property tax that required voter approval. MPC Bonds did not require voter approval and are backed by excise taxes. These bonds are used to purchase municipal facilities and lease to the Town. Mr. Rudolphy stated the total outstanding bonds were \$7.5M including GO Bonds; the largest for Saguaro Boulevard would be paid off in 2020 and one being a refund for four or five previous issues paid off in 2019.

Mr. Rudolphy covered the Revenue Bonds or MPC Bonds totaling 1.4M for the Community Center exclusively and as of July 1, 2016, the preserve portions of the MPC Bonds will be paid off. He added there was still a piece of the preserve from the 2005-GO Bond of \$1.2M and a small part would be used for the preserve. He added the Eagle Mountain Bond had been reduced to \$1,935,000. He added that the MPC Revenue Bonds, dedicated by Council in early 2000, were .4% of the Excise Tax to various purposes such as 1/10% of the funds went to Economic Development and .3% to paying off MPC Bonds. Town Hall was paid off in 2011 and Council elected to use accumulated balances in the Excise Tax Fund to pay off Town Hall, which eliminated a portion of that tax of .1 of 1/10 of 1% of \$.03 of that 1% went away and stayed in the General Fund, which left .2% dedicated to repaying the preserve. He continued that Council, last fall, after looking at the re-pavement plan, had indicated 2% or \$600,000 to \$700,000 or 2% Excise Tax annually could be directed to other projects. Staff presented a proposal to use these funds for pavement replacement and Council agreed to take .02 of 1% and direct to the Pavement Management Fund. Mr. Rudolphy maintained there was discussion on how to use these funds, either for replacement or maintenance. Staff at that time suggested they bring this issue back to Council during this budget year to take another look at approximately \$2M per year; \$1M the Council authorized those funds to pavement management and maintenance and an additional \$1M for pavement replacement accumulative \$2M a year during the budget process. He added Paul Mood would come back with suggestions and recommendations on allocating funds.

Current FY15/16 Budget by Core Services from All Funds

Revenues

Mr. Rudolphy referred to the PowerPoint slides and explained that the Town was short on revenue (currently at

84.6% of our budget); he indicated the Town would catch up during the year and the Town needed to carry over funding for the remainder of the year. He noted that these are projections.

Expenditures

Mr. Rudolphy pointed out that the CIP was the largest expenditure and fluctuated as items were completed. He explained that the Town's Accounting System takes the total of expenditures for the year and divides them by 12 and places 1/12 in each fund.

Assumptions

Mr. Rudolphy referred to the table of FY2016/17 assumptions included in the PowerPoint. He summarized stating that these assumptions were staff's best guesses and dependent on Development Fees but were subject to change. He added The League of Cities and Towns provided the best numbers of State Shared Revenue projections and because of current Legislation and utilizing census estimates for each year, the League had decided to wait to announce numbers until May (the share the Town would receive). Last week he indicated that he had heard that it would now be in March when staff would receive the total distribution not by population, but number of dollars coming to the Town; therefore, Mr. Miller decided to include a 2% reduction. Mr. Rudolphy listed a 3 ½% current increase estimate for Rural Metro and 10% for MCSO (which was only 7% increase for year 2015-16). He also mentioned the State Senate passed legislation, which was now in the House to place a Constitutional measure on the May ballot to change the "Permanent Benefits Inflation" to a "Cost of Service Bases". Mr. Miller added that amortizing unfunded liability out 30-years would be required. Councilmember Magazine asked what was involved. Mr. Rudolphy answered to pay-down unfunded liability, better funding of the PSPRS and general increases in contract wages, which was ultimately passed on to the municipalities.

Mr. Miller commented on preliminary staffing requests made, which had included a request for one additional Parks Maintenance staff member as this seemed to be the biggest need, which would cover the level of work needed, and included restoration of some downgraded positions, reclassification of some positions with possible salary saving.

Councilmember Magazine questioned if Council could consider undedicated funds for alternative uses in the General Fund to allow for maximum flexibility. Mr. Miller requested that they go through the balance of the presentation and that the proposal could be discussed during the strategies discussion.

Budget by Core Services from All Funds

Mr. Rudolphy continued and referred to the totals in PowerPoint noting that the decrease was in the Capital Improvement Fund.

Economic Development Budget Recap

Mr. Rudolphy discussed that 1/10 of 1% currently was dedicated by Council to Economic Development; 20% would go to the Downtown Strategic Fund and 80% or \$277,000 would go to the Economic Development Fund to cover all of tourism. He stated that the Downtown Strategic Fund has approximately \$900,000 and \$100,000 had been dedicated to Avenue of the Fountain and Saguaro lighting. Mr. Rudolphy added that about \$800,000 was not committed.

Five Year Financial Forecast

Mr. Rudolphy referred to the PowerPoint slide noting that the blue line was anticipated revenues and that after 2016-17; revenues did not keep up with expenses. Councilmember Magazine asked why the increase in expenditures and Mr. Rudolphy stated due to inflation.

Mr. Rudolphy added last year's projection was short approximately \$2M over five-years, but this year the

shortage was estimated at \$5.5M.

General Fund Projections/Highway User Revenue Fund

Mr. Miller asked Mr. Rudolphy to explain what impact the Environmental Fee would have on the Environmental Fund. Mr. Rudolphy answered when 2015-16 was budgeted, approximately \$250,000 of transfers were made consisting of \$200,000 from the General Fund and \$50,000 out of the Highway User Revenue Fund (HURF) into the new Environmental Fund to make up funding for projects in the first six-months between July through December of the current year before starting to collect from billings sent out early January. Staff projected \$440,000 from Environmental Fees and transferred \$250,000 into the Environmental Fund to pay for expenses anticipated. He continued that next year no transfers are scheduled in the budget from the General Fund because we assumed all the revenue would come from the Environmental Fee and expenditures paid out of that fund. Mr. Rudolphy added that to date \$380,000 had been collected out of the anticipated \$540,000 and any shortages would have to be paid out of the General Fund. He added that staff assumed the fund would be self sustaining, and if not, the balance would need to come from the General Fund.

Councilmember Yates asked how much of the \$540,000 was mandated. Director Paul Mood responded that street sweeping was \$90,000; dam maintenance was \$30,000 with approximately \$20,000 in permits required. Mr. Mood pointed out that the level of priority wash maintenance was yet to be determined. He added that in 2009 wash maintenance was taken out of the budget and that action increased a four-year maintenance cycle to seven years. Councilmember Magazine asked how much funding would be left if only the mandated items were completed. Mr. Mood responded that some of the money comes from HURF in this current year but would not be available next year and could only be used for specific maintenance. Town Attorney McGuire interjected that from a Risk Management standpoint the culvert clean-out projects that are not mandated, which the Town was behind on, could create liability for the Town. Councilmember Magazine expressed he wanted flexibility in the budget and for Council to look at all services and determine priorities. Mr. Miller added that certain funds are legally binding on use and Mr. McGuire concurred.

Mr. Rudolphy announced that the General Funds were increasing, but the level was flat and expenditures were raising a lot faster. State Funds Shared Revenues were increasing, but also flat and until changes in Legislation were known, that it was possible the Town's annual revenue could be down a percentage unless the population increases. He added that Local Sales Tax was increasing and noted that 35% of the Town's funding was coming from sales tax. He reiterated that the HURF Revenues could only be used for the maintenance of roads and streets.

Personnel

Mr. Rudolphy confirmed that one position had been requested as noted earlier by Mr. Miller and explained that currently the Town employed 43 full time and 22 part-time employees for a total of 55.32 full time employees. Mr. Miller remarked that in 2002 there were 115 full-time employees and as of this year they had 52; there was no depth in the organization (at bare bones). He stated that if one employee was absent those services were affected. Mr. Miller would like to assume there would be no more reduction in staff. He also stated that some services were contracted, but contract fees for services had increased and the savings was all but eliminated.

Town of Fountain Hill Organization

Mr. Rudolphy announced that nothing had changed on the organizational charts.

Capital Reserve Study

Mr. Rudolphy deferred this item to Development Services Director Paul Mood.

Mr. Mood stated that for the last four to five years staff had put together an Excel spread sheet indicating all major maintenance items the Town had been putting off including the planning of large ticketed items for the future. He continued that this year a company was hired to create a reserve study. Mr. Mood reported that the

study was for a 30-year period; using a 3% inflation rate. He asserted that the estimate to fully fund the reserve balance would be over \$7M. He explained the report covered Facilities, Parks and Fire Department and included items such as parking lots, building roofs, and large mechanical items, all painting of buildings and carpet that cannot be covered in our normal budget. He explained the parking lots needed maintenance and would cost approximately \$100,000. Councilmember Yates asked what we had in the budget. Mr. Mood answered \$170,000 and added that if the Town had to replace one-15 year old cooling system it would cost approximately \$40,000 to \$45,000.

Mr. Miller pointed out that the Town has not been fully funding the organization and had deferred many items. He proposed putting away funds for these type items so it does not hit all at once in the future. Mr. Miller continued that there was a reserve, but suggested allocating funds to budget for specific purposes separately. Mr. Mood continued that the companies report listed such items as replacement of the splash pad, ball field lighting and the major expense the lake liner. He mentioned the liner was last replaced in 2000, with a pro-rated warranty and research that showed a life span of 30-years and that should include a 70-year old pipe being replaced as well. Mr. Miller added that the acidity of the water was hard on the liner.

Mr. Mood listed some of the Fire Department's replacements such as aspirators, "Jaws- of- Life", radios, hoses, defibulators, traffic cameras and pointed out that emergency vehicles were not included because funding was located in the Vehicle Replacement Fund.

Mr. Miller suggested the Council schedule a work-study to discuss allocating funding and Councilmember Yates answered he supported that suggestion. Mr. Mood reported that staff was in the process of working on the report to address certain time lines and recent purchases to update their report. Councilmember Hansen stated it should be part of the Fountain Hills Vision Plan survey and Mr. Miller agreed stating that the group's first meeting would be on May 7th at Town Hall and they would have the information.

Councilmember DePorter left the meeting 9:50 AM.

Mayor Kavanagh asked what the plans were for the old Fire House and questioned if the Town could make money from selling the property. Mr. Miller responded that a suggestion was made to move the vehicle fleet to this property, but it was deemed too small. Mr. Mood interjected that the property was zoned residential. Mr. Miller proposed to sell the property and place the funds into the Capital Fund rather than the General Fund as it was a onetime asset and he also noted that the Town must be sensitive to the zoning in the surrounding neighborhoods

Mr. Miller recessed the meeting to provide a break to the attendees at 10:10 AM and the meeting reconvened at 10:30 AM.

Strategies to Address Financial Challenges

Mr. Rudolphy reviewed the various items on the list of strategies and pointed out that the Council could consider an increase on all sales tax rates. He added that right now each tax category was assessed at the same level, with a few exceptions. Possibilities for the Council to consider were to increase sales tax on some by not all categories. Mr. Rudolphy pointed out that taxes could be increased for all but the Bed Tax without voter approval. He noted that Sales Tax Tables were located at the end of the handout, which indicated what other communities' tax rates.

Mr. Rudolphy continued commenting on Public Safety Fees. He also reviewed the following suggestions of imposing a primary property tax, reducing Town staff, and exploring contracting out more for basic services, which he foresees cost rising and the savings to contracting decreasing. He added that additional help would be needed to coordinate and keep track of those contracts. He also suggested the Town hire a financial advisor to recommend strategies for future revenue shortfalls. Vice Mayor Leger pointed out that in 2006, an advisor was hired to assist in the Strategic Plan, which had produced the Hockings report. He stated that it is as relevant today as it was then. Mr. Miller stated that Tom Hockings' firm was outstanding and commented that using a top financial advisor expert could be beneficial in explaining to the public any Council action taken.

A discussion ensued regarding the issues in identifying and collecting the bed tax, the short and long term rental tax, which was felt to be under collected. Mr. Miller noted this could not be done in-house do to the Town's limited staff and he suggested the Town's auditor might be able help with a scope of work for contracting with someone to complete such research and collection. Vice Mayor Leger asked if the auditor collected outstanding taxes and Mr. Rudolphy answered when an issue arises they would attempt. Mr. Miller added there were firms that specialize in this type of audit.

Mr. Rudolphy stated another expenditure that could be reduced was police and fire services. Mr. Miller interjected that at this time fire services were adequate; however, he commented that when the Ellman property came forward additional law enforcement was added (beats) and that this would be one area that could provide a \$300,000 saving. He stated that a reduction in MCSO beats was a policy issue and everything was on the table for the Council's consideration Vice Mayor Leger suggested looking at both contracts for savings but added that he hears from residents that they felt they needed more law enforcement coverage and that labor should be the last place to look. Mr. Miller noted that do to the additional services made available through MCSO and that he felt the fire and emergency services cost was reasonable; however, if the Town took over those services, the cost would be substantially higher.

Mr. Rudolphy referred to the TPT rate handout and pointed to the fact that an increase of .1% sales tax could generate approximately \$340,000. Vice Mayor Leger requested information comparing other comparable communities' tax rates with the consideration that some may have a primary property tax or other revenue source. Councilmember Magazine requested the Council consider low-income residents and the impact to those residents when proposing food and non-prescription tax increases. Mr. Miller asked if the Town was limited by State Law to the amount of sales tax imposed; Mr. Rudolphy answered "No". Mr. Rudolphy stated he could provide approximate numbers on tax collections from the Town's grocery and drug stores. Councilmember Magazine asked for a list of communities that exempt food and non-prescription drugs from taxes and a list with of their separate tax rates.

Mr. Rudolphy discussed the list of suggested strategies stating that Council could raise Town Fees, but that understood this was a sensitive issue in the community. He added that last year's fees totaled \$458,000, and that it would take a significant increase to impact the budget. Mr. Rudolphy also suggested leasing vehicles instead of purchasing outright so the cost could be spread out and noted that next year five vehicles were schedule to be replaced.

Councilmember Deport returned to the meeting at 10:50 AM.

Councilmember Magazine proposed that the Council look at funds that were not restricted by law in order to maximize the Council's opportunities to prioritize next year's budget.

Councilmember Yates expressed concern that no growth strategies had been added and noted that revenues were leaving the Town. He stated that since the Town had recently experienced a shortfall it was important to pull those back with incentives. Councilmember Yates suggested that the Town should have a better approach for legal services based on the money spent and that they should consider an in-house attorney for possible savings. Mr. Miller suggested staff could tighten up their policies and procedures to help curtail the expense paid for legal services. Councilmember Yates suggested a menu of services be compiled.

Mayor Kavanagh asked Economic Development Specialist Scott Cooper for his input on Economic Development. Mr. Cooper discussed that retail looked better and reported the Town has reached out for new opportunities but there were parameters that needed to be met for those businesses to consider locating to Fountain Hills. Councilmember Magazine asked for elements necessary to attract businesses. Councilmember Yates explained that some businesses want a certain number day time population within a specific location and at times the Town does not qualify. Councilmember Magazine wanted to know how this could be corrected. Councilmember Yates asserted the Town needed a Growth and Sales Strategy. Councilmember Magazine suggested creating a committee to address this complex issue and consider how the Town could increase its value to attract businesses. Vice Mayor Leger remarked that this issue has been talked about for years along with supporting Tourism and

Economic Development. He added that the Town would have to generate \$40M locally to see \$1M in revenues and stated the need to diversify the Town's revenue portfolio to generate a stable form of income since the economy had leveled off. The Vice Mayor noted with a slow recovery he did not have any great expectations on where this will end-up because sales tax comes and goes and retail leakage was a part of the Town's culture. Vice Mayor Leger questioned how the Town could generate revenue without being dependent on businesses because population growth would not be fast enough. Vice Mayor Leger stated that this had been researched in the past and Councilmember Yates indicated that this should be on the list as another strategy. Vice Mayor Leger and Councilmember DePorter agreed with Councilmember Magazine that another direction would be to create a committee to research and present strategies to the Council.

Councilmember Hansen questioned what the intent was to provide for programs and amenities in the next budget year. Mr. Miller maintained looking out five years, he had requested departments to submit a base budget with no enhanced services or programs, and if new enhancements or programs were requested an explanation was needed on those items. Mr. Miller stated that one of the assumptions was a 2½% salary increase for Town staff. He noted that for the base budgets staff also anticipated an increase for utilities and cost benefits for staff going up by 5%. He added that everything else was considered a supplement. Councilmember Hansen stated that the difference between needs and wants must be determined and Mr. Miller answered that we are considering coverage of core services at this time.

Vice Mayor Leger declared the need for revenue immediately instead of later and that the Town continued to be in crisis management.

Councilmember Magazine gave a handout to Councilmembers that showed the past revenues before the recession and how our recent revenues stood for each quarter, including a few more operational expenses. He understood that the Town changed financial systems in 2009 and now reported by program for each year. Councilmember Magazine noted earlier years showed expenses and revenues closer together but now are growing farther apart. He believed that if this information was included in the financial quarterly reports it would give everyone, including the public a better picture to where the Town stood with expenses verses revenue. Mr. Miller agreed.

Operational Priorities

Mr. Miller addressed the slides in the PowerPoint, which listed the fiscal year 2015-16 priorities (not in any order) with Saguaro Boulevard being higher priority this fiscal year. Mr. Miller continued to next fiscal year 2016-17 and stated that after Council's input he created a list of priorities, which could be added to, modified or changed. He continued that per the discussion today he had added stabilized and growth of Town finances. Mr. Miller stated that Pavement Management continues, Economic Development Plan was a work in progress; Fountain Lake Water Quality was detrimental to the quality of our pumps, liner and irrigation along with hard on our parks; Fire Station #2 would be presented in the Capital Improvement presentation, Facilities Reserve Fund was also Capital Reserve, State Land was being watch by Councilmembers and they should be quick to respond to what may happen in March with the Ellman Properties, and Traffic Studies concerns from Councilmember Magazine and Mayor Kavanagh on locations at La Montana and the Avenue and Shea and Fountain Hills Boulevard and Palisades Boulevard intersections are priorities to find resources to fund.

Strategic Planning Update

Mr. Miller continued the discussion and stated that the Town was unique because a lot of the cities did not have a Strategic Planning Advisory Commission (SPAC) and that the Advisory Commission was in the process of updating the plan and it should be done by the end of December. Mr. Miller moved on to the next slide and noted there were other areas that were identified for this year. He added that plan was going through a major update and last fall they reviewed the 2010 SWOT Analysis to determine what was relevant. At the January 4th Town Council Meeting SPAC Chair Dana Saar presented the plan and noted they were partnering with the Fountain Hills Cultural and Civic Association on a vision process, which included a web based community survey launched on February 3rd survey access can be made at VISIONFH.ORG. Mr. Miller added that the results from the survey would be compiled and completed by April and would be presented at the Town Hall Meeting on May 7th. This

visioning survey data and citizen input would be used to update the strategic plan and a draft would be given to Council for their review and possible adoption.

Councilmember Magazine believed one of the single biggest problems in Town was communication and that needed addressed and Mr. Miller agreed that communication could be improved.

Vice Mayor Leger requested numbers be associated to priorities or at least cost estimates including Strategic Planning, which he stated was a good idea, but how would priorities be funded. Councilmember Hansen remarked differentiating between “needs” verses “wants”.

Mr. Miller called for a break at 11:40 AM and the meeting reconvened at 11:55 AM.

Capital Projects Report

Director of Development Services Paul Mood referred to the PowerPoint that addressed the 2015-16 Major Capital Improvement Projects. Mr. Mood explained that the Ashbrook Wash Channelization project was a joint project with Flood Control and currently under construction. He stated there were rains and permit delays but work should be completed by May or June. Mr. Mood added that funds were added to this year’s budget just in case completion was late, so funds could be available if needed. He explained that funds were also added for miscellaneous drainage projects, if needed or if the Council wished to do a specific project.

Mr. Mood stated that Fire Station #2; relocation project had completed the Architectural process. Staff received eight proposals; selected down to three with interviews last week and selection of “Hunt and Calloway” who designed the station located off Shea. Staff is currently working on the final scope and cost with an updated report coming in a future Town Council agenda for contract approval. Vice Mayor inquired if design elements used on the other building design could be incorporated into the new one. Mr. Mood answered different directions were given to them, so the design would look more residential and the other element was the difference on site. Mr. Miller added that the area residents would be involved in the design to a certain level to minimize concerns during the process. Vice Mayor Leger ask if Development Fees were available for this project. Mr. Mood answered some funds were available through the police budget that would be used for creating office space for them or for a training facility at approximately \$200,000. Mr. Mood added there would be a six month design process; two months to bid out and ten months to construct.

Director of Community Services Mark Mayor addressed the Fountain Park Improvements stating there were a couple of items left to be completed and the Town was in the warranty period. Mr. Miller pointed out that the budget started at \$910,000, but only \$750,000 was spent. Mr. Mayer explained that the extra funds would be used along with Grant funds from tourism to replace six tennis courts at \$100,000.

Mr. Mood presented the Fountain Lake Quality Improvements and stated staff worked with the Town’s consultant, who had recommended strategies to increase the quality of the lake water. Mr. Mood added that under water aerators, vertical underwater mixers and aerators replaced at the pump house was suggested.

Mr. Mayer added staff was researching on how to accept water directly from the Sanitary District and receive a better quality of water than pulling water from the lake; however, the one downside would be not using the lake water with evaporation being the only distribution loss. Mr. Mayer added that the consultant was also reviewing this issue for remedial methods and cost with the first study completed and now addressing the remaining questions to completion by the end of next month.

Mayor Kavanagh inquired if the Sanitary District had any plans to upgrade their system to alleviate the salt problem. Mr. Mayer answered that he was not aware of any plans to remove the salt and noted that process would be expensive and the challenge would be what to do with the salt.

Mr. Mayer presented the Adero Canyon Trailhead funding and stated staff budgeted \$20,000 this current year for remedial work needed per an agreement. He continued that it had been ten years since the plans were brought to

95% completion including a plant inventory review of native species and a salvage schedule. He added that another Level I Environmental Assessment had to be completed of the site for artifacts. Mr. Mayer acknowledged these funds would allow staff to pay for the work with the balance of the funds for the 2016-17 fiscal year to earmarked to finish the design work and move on to construction. Mayor Kavanagh questioned when work would begin and Mr. Mayer answered after July 1st the funds would be available to start the inventory and site survey and completed with plant and salvage survey after 100 % final design.

Mr. Mood stated the Shea and Saguaro Street Project were in conjunction with MAG and completed. He pointed out that after staffs acknowledge the condition of the road, staff had to go back to Council for additional funds for full replacement.

Mr. Mood explained the Palisades and Saguaro Traffic Signal Upgrade was part of the Saguaro Project and completed, with a few punch list items including fitting and repainting the light fixtures to match. Mr. Mood mentioned during the recent rains drainage at Palisades and at Desert Park worked perfectly, but noted on Saguaro Boulevard south swell near the park reached its limit to the top.

Mr. Mood continued that Fountain Hills Boulevard Shoulder Paving Project was on hold for awhile because of staffing and time to work on the project. Recently the project was re-engaged with a meeting including the consultant and ADOT who all met on site and announced the project will be initiated again. Mr. Mood added that a Grant through ADOT had included right-of-way and Environmental clearances. Mr. Mood proposed the work would not start for a minimum of one year.

McDowell Mountain Road Repairs

Mr. Mood pointed out a curve with a bumpy area in the road that needed repaired and money was allocated for it in the Capital Projects this year for repair. He stated that unless absolutely necessary staff was going to wait on FireRock "Parcel B" to complete their truck hauling and when the winter visitors leave to begin because of going down to one-lane for traffic control.

Mr. Miller asked if the Adero Canyon truck loads were going the same route and Mr. Mood answered they use this as an approved haul route. Mr. Mood continued that staff receives a lot of calls regarding the trucks and the only other route would be to use Shea to Palisades to Fountain Hills Boulevard and staff wanted to keep the trucks off the new roads and avoid restrictions.

Councilmember Yates inquired about using grant monies such as a "TIGER Grant". Mr. Mood responded that the "TIGER grant" had to be a \$1M project and due to staffing levels; the application process was cumbersome and the benefit was unknown.

Councilmember Yates asked what grant programs we had going and Mr. Mood answered the biggest one was the Fountain Hills Shoulder Paving Project. He added that the Town did have a grant to add a bike lane on Shea, but for some reason that funding was de-committed and that the \$35,000 deposited with ADOT would be diverted to the Fountain Hills Boulevard Shoulder Paving Project. He mentioned an ITS grant for linking the traffic signals, which could possibly work on Shea containing conduit. He added that with new technology it would be possible to use radios or wireless. Mr. Mood noted that linking would be a very difficult project to process and wondered what benefits there would be to change. Lights are synced fairly well in Town with one issue that lights trip at time with on-coming cars.

Councilmember Yates asked if staff needed additional resources. Mr. Mood predicted a need at Shea and Saguaro since MAG Prop had money to finish Shea from Technology to Palisades only and money appropriated into the budget not this year but the next to do a design concept report and re-estimate the 70/30 match project. He continued that Fountain Hills Boulevard needs to be widened where it goes down to one lane and staff would be completing a design concept when the Town can go into another bond for road improvements. He also noted the major drainage and erosion problem located at Emerald Wash.

Vice Mayor Leger asked for a completion date on Ashbrook Wash and Mr. Mood explained that the Town Engineer Randy Harrel was working with the Flood Control District on that project but he believed it was May or June.

Capital Projects

Mr. Rudolphy referred to the PowerPoint and remarked that in the attempt to cover projects, some of the numbers listed could be higher than necessary. He added that the amount was more than the Town's revenue, and did not reflect grants or development fees. Vice Mayor Leger questioned the amount available at the end of the fiscal year. Mr. Rudolphy answered approximately \$1M, but after completion of the Fire house the balance would be lower; he reviewed the list of Capital Improvement Projects and associated funding status as of December 31, 2015.

For fiscal year 2016-17 it was noted that the Ashbrook Wash Project funding was just a place holder and conservative because if the project was not completed by June 30, we would have the funds to pay our portion to the Flood Control District. He continued that Drainage Improvements were also a place holder; Downtown Vision Master Plan would be paid with the Downtown Excise Tax; Fire Station #2, Relocation funds were allocated out of Development Fees and Capital Improvement. Mr. Mood stated the Town would be adding a third chiller to use if one of the other two chillers in the physical plant goes down and since the original two chillers were over 15 years old, this expense needed to be covered.

Mr. Miller reported tennis court rehabilitation funding would replace six courts at Golden Eagle Park and Four Peaks Park at \$179,000 CIP and \$211,000 grant money. Mr. Mood led a discussion on various uses of the Downtown Development fees. He continued that Adero Canyon Trailhead would be funded with \$485,000 CIP and 1.8M from Development Fees. Councilmember Hansen proposed since there was a re-design to update the trailhead, would it be possible to complete this project using Development Fees only. Mr. Miller agreed and stated that he had previously suggested this and explained that J2 Consulting could be conservative in their estimates and alternatives were being considered to make this a placeholder and keeping the costs down was a goal.

Mr. Mood stated that Fountain Park Access Improvements at Saguaro and Avenue of the Fountain were previously touched on by Mr. Miller but added that staff was referring this to a consultant for some options before bringing them back to Council. He added the Four Peaks Park bus barn removal funds were transferred after approval by Council for completion of a Phase I Environmental Assessment needed due to an interceptor installed for the district to perform oil changes and the access to the sewer needed to be tested. Mr. Miller added that in the Parks Master Plan, staff had scheduled a multi-phase CIP for Four Peaks Park - Phase I that was noted critical to the residents and would include desert vegetation along the road to the wash and would improve the neighborhood's appearance. Mr. Mood continued that other expenses could be involved as the removal of fiber optic lines, replacement of fencing and the possibility of an Environmental clean-up with the need for additional funding.

Mr. Mood explained there were two more alleys to be completed under Unpaved Alley Paving located behind the funeral home. He addressed the Fountain Hills Shoulder Paving funded amount of \$500,000 to be paid out of the CIP and grant money. Mr. Rudolphy explained where the funding was coming from for fiscal year 2016-17 Capital Improvement Projects noting the CIP, Downtown Fees, Grants and Downtown Strategy Funds for a total of \$9M and stated the Town could not support more than projected.

Councilmember Yates wanted to know if the Facilities Supervisor had researched new technology to save on electricity. Mr. Mood answered that staff changed out lighting in the Community Center to LED's with a grant from Salt River Project and noted the possibility of changing parking lot lights and intersection lighting to LED's. Mr. Miller added that he felt since the facilities were fairly new they were very energy efficient. Mr. Mood added that the Town did an energy audit a few years ago and proceeded to upgrade in some areas.

Pavement Management Program

Mr. Mood discussed the Pavement management Program and referred to the slide “Historical Streets Revenue and Road Maintenance” listing funds spent annually on road maintenance. He explained that Pavement Management Practices listing Stantec Engineering data were outdated, but good information except that the numbers had gotten worse. He added that staff was looking at approximately \$1.8M for future funding needs. Mr. Mood described the Town’s Pavement Management Program and how the Town was set-up to address seven zones and what zones had been completed to date.

Mr. Mood explained that in a lot of contracts especially Facilities and Pavement Management, and staff tried to look for other cities and counties who had a clause in their contract that allowed others to use them or piggy-back with a possible sales tax adjustment and receive a better price for service. Mr. Mood pointed out the life-span of streets and roads and how they were evaluated and addressed in the future, but acknowledged that process was always changing. Mr. Mood added that in fiscal year 2016-17, the main locations were Bainbridge and La Montana for road repairs along with various locations considered immediate.

Mayor Kavanagh asked if money was set aside to cover emergency road repairs. Mr. Mood responded that money would come from the Operating Budget for repairs such as pot-holes. Mr. Miller expressed these types of services were hard to keep up and after 2020 and the repayment of the current bond, the Town should consider a strategy to address anticipated road repairs with public meetings to educated people on what immediately needed repaired and on a continued basis. He added with a tight budget it was hard to maintain all major and collector streets not including replacement of neighborhood streets that are only addressed when they completely fail.

Economic Development Plan/Tourism

Economic Development Specialists Scott Cooper presented three slides that were part of the Economic Development Plan previously adopted by Council three years ago. He noted there were three planning goals: Downtown Strategy, Tourism and Business Attractions. Mr. Cooper listed the successes including the Morningstar Development with 70+ employees and capital expenditures of \$11.5M. He added that growth of the business Retention and expansion of “Brokers Alliance” added 15 positions with the possibility of an additional 45 in 2016, and expanding their physical location. He also mentioned “Prevco Subsea” as most notable. Mr. Cooper continued to explain on-going external marketing that included a digital postcard, economic development brochure in the final stage of completion, an economic website had been created and a recent update and expansion to the network with the ability to bring bigger and better relationships, including the Commerce Authority, who has been very helpful to the Town. He stated that by reaching out to architects, builders, commercially owned businesses and real estate advisors has helped get the word out about Fountain Hills and expand our borders on a national level. Mr. Cooper presented opportunities the Town had including social media and noted the Town was on Twitter, Facebook, Linkedin and YouTube, which reaches out to the east coast, with no cost to the Town. Mr. Cooper added the YouTube videos would be coming and focused on Town’s activities.

Mr. Cooper expressed concerns about the lack of day-time population density and full-time residents. He also spoke about job growth and how to attract people to work and live in Fountain Hills. Mr. Cooper pointed out that he had been working with the Brokers Alliance to try and find employees to support the long term needs for businesses to grow and noted the task had not been easy.

Mr. Copper addressed fiscal year 2015-16 tourism activities. Councilmember DePorter asked if he felt ORI and GPEC were helpful to the Town. Mr. Cooper answered “Yes” and that he could see value, which was hard to measure, but there was value in being involved and by attending meeting and groups, and having access to their helpful staff if needed. He added to attempt the collection of information they can provide would be very costly and he noted the membership fee had not increased over the year. Mr. Miller agreed. Councilmember DePorter thanked Mr. Cooper for being involved with these organizations.

Councilmember Yates asked if there were a bench-mark to compare the Town with other communities helping to identify gaps in commercial space. Mr. Cooper stated he had created a base report on other size communities that

identified anomalies. He added Fountain Hill's vacancy rates were in-line at mid 20%; single digits for retail and industrial. Mr. Cooper continued that the Town was competitive at \$14 to \$16 per foot and compared to our neighbors were very competitive, but low compared to others such as Cave Creek. Councilmember Yates stated the Town needed larger spaces or help accommodating zoning to attract more businesses and felt the Town was missing something to make this happen. Mr. Cooper agreed the Town was missing a good and clean product partly because of space size limitations.

Recreation Supervisor Rachael Goodwin discussed tourism and referenced the PowerPoint. She stated that the Town was the recipient of two different grants this year; \$25,000 Arizona Office of Tourism and \$25,000 from the Salt River Pima Indian Community through Prop 202 funding. She explained grant monies were to be used for advertising Fountain Hills at the "Waste Management Open", Spring Training and other on-site ads at local stadiums. She added staff was implementing a strategy marketing place "Get Out of the Valley and into the Hills" because Fountain Hills offers something other parts of the valley does not have. Ms. Goodwin also pointed out this was a joint effort with Economic Development. She added the continuation of branding with advertising "Experience Fountain Hills" and through different events valley wide along with a design and implementation of existing and new publications such as the "Dining and Visitor's Guide" and continual internal communications at stakeholder meetings with businesses held in September and another in late spring including the Chamber and other groups holding events in our Town. Ms. Goodwin noted that staff had a running six-month targeting campaign consisting of digital advertising, listing activities within the Town and had produced a dramatic increase number of views on our website.

Councilmember Yates asked what the cost was to the Town. Ms. Goodwin stated \$12,000 initial cost and \$2,000 per month for six months using earmarked AOT funds. She continue that social media was mostly free with a few exceptions. She noted the brand exposure throughout the valley in magazines, guides and events. Staff was also launching the newly renovated tourism website at "fh.org within the next week. Councilmember DePorter asked Mr. Miller to request a supplement for social media needs. Mr. Miller stated the Town had one for communications, but would look to initiate a supplement to go towards more social media for shared resources.

Ms. Goodwin promised staff would continue their marketing efforts with new upgrades and would implement "itineraries" as a new marketing tool and incorporate recommendations for local activities. She noted that if the Town continues to receive grant money more online marketing and retargeting would be implemented. Ms. Goodwin added that implementation of a four year Strategic Tourism Plan was under review and hopefully staff would present that to Council in the near future. Mr. Miller explained that he and Mr. Cooper were working on creating a tourism action plan. Councilmember Yates asked if there was anything that could be added, moved or changed to the business center and Ms. Goodwin responded that the visitor center was not located in a primary corridor. She continued that there had been discussion on where the visitor center should be located and was in the process of being evaluated for the area of activity.

Councilmember Magazine asked if there were any metrics available to account for all the work staff had done and to measure where the Town stands. Ms. Goodwin answered that in the Strategic Plan there were measurements built in and if necessary, staff could count the number of materials going out along with how long and how many people are visiting our website and she added indicators are going up greatly each month. She stated that long term would show in Bed Taxes and through our grant process along with occupancy rate and sales tax revenue and that a metrics could be provided.

Mayor Kavanagh proposed that the Park is where staff should be to distribute handouts. She noted that there was a real estate office near the Park and they have a section for visitors to collect brochures, which would also be a draw for the business and not cost anything to the Town. Mayor added another method suggested, but failed for lack of volunteers, was a moving cart stationed around town filled with information handouts. Mr. Miller also suggested a veranda located on the Avenue and away from the fountains staffed with volunteers to hand out brochures. He noted these were ideas to kick around.

Public Safety

Mr. Miller referred to the PowerPoint presentation discussing information concerning Law Enforcement Services and noted the current contract runs until June 2017 and suggested now is the time to start looking at ways to possibly reduce costs.

Assistant Fire Chief/Fire Marshal Dave Ott discussed Fire and Emergency services. He reported that Emergency Services used Rural Metro as a staffing mechanism only. He pointed out that the current expires in June 2018 and would end a nine year contract, which included a 3% increase. Assistant Chief Ott recommended the community take a look at what was offered in the next contract. He continued that in 2015 Fire Rescue Ambulances were converted with an increase of four additional fire staff per shift at no additional cost to the Town. He added this gives staff more flexibility and helped with mutual aid when needed from surrounding communities. Assistant Chief Ott added staff had not seen any drastic changes since converting and the company was waiting for the Department of Health Services to recognize AMR as another merchant medical provider in the state and noted prior to that confirmation, the organization was working as two separate companies on the Ambulance side and had resolved to effectively work as one company and rebrand across the valley. He added that Southwest Ambulance and PMT would probably become AMR. Assistant Chief Ott also informed the Council that Fire Chief Randy Roberts officially announced his retirement at the end of June.

Mr. Miller pointed out that a staff team was evaluating an action plan if something happened with this contract, including costs to the Town and would report to Council, when completed. It was anticipated that costs would increase if the Town took over fire and emergency services. Another option would be to contract services out to near-by community services. Councilmember DePorter indicated that he would be supportive if the Town chooses to take over services and hire the current dedicated staff, which he noted could also offer additional benefits to these employees. Mr. Miller assured Council that if that should happen, the Town would be readily prepared; it was his understanding that each party must give a one-year notice to withdraw from the contract and pointed out negotiations could begin between now and next year and that starting earlier might obtain better rates.

Mr. Miller asked the Council for some direction on one or more of the strategies presented as a way to start.

Vice Mayor Leger asked for the total amount of the Rural Metro contract. Mr. Rudolphy replied the contract was for \$3.65M and it was calculated that 52% of the Town's budget was spent on Police and Fire/Emergency Services.

Councilmember Yates asked for real numbers on revenues needed and asked if the Town should schedule a work study or hire a consultant to facilitate the action plan discussion. Mr. Miller requested a consensus on hiring a financial advisor. Councilmember Magazine agreed it would be a good idea to bring in consultant that had worked with other communities to give Council some direction but cost to hire a consultant should be considered.

Vice Mayor Leger requested that staff give copies of the "2006 Hockings Report" for their review and use as good base-line information as a starting point and that the focus should be on funding core services.

Mr. Miller listed additional items to be addressed by staff as part of the budget process:

- Sales tax and cities primary sales tax listed on same table with a column to compare; break up between west and east valley communities; listed components of taxes – i.e. Mesa had a sales tax but also had other resources as utilities; Scottsdale had a sales tax along with a primary property tax.
- Social media shared supplement to help staff who use social media.

Mr. Miller stated that the next step was to distribute the budget schedule, which begins on April 19th. Mr. Rudolphy mentioned there would be a Special Session on March 8th with Town Council to discuss Capital Improvement Projects; the proposed budget would be distributed to those involved by April 4th. It was also

mentioned that the Budget Sessions would be held on April 19th and 20th.

The meeting adjourned at 1:45 p.m.

TOWN OF FOUNTAIN HILLS

By: _____
Linda M. Kavanagh, Mayor

ATTEST AND
PREPARED BY:

Bevelyn J. Bender, Town Clerk

CERTIFICATION

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Council/Staff Retreat held by the Town Council of Fountain Hills in the Town Hall Council Chambers on the 11th day of February 2016. I further certify that the meeting was duly called and that a quorum was present.

DATED this 3rd day of March, 2016.

Bevelyn J. Bender, Town Clerk